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AUDITOR - GENERAL  
SOUTH AFRICA

## Report of the auditor-general to the North West provincial legislature and the council on the Dr. Kenneth Kaunda District Municipality

### Report on the audit of the consolidated and separate financial statements

#### Qualified opinion

1. I have audited the consolidated and separate financial statements of the Dr. Kenneth Kaunda District Municipality and its subsidiary set out on pages xx to xx, which comprise of the consolidated and separate statement of financial position as at 30 June 2019, and the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Dr. Kenneth Kaunda District Municipality and its subsidiary as at 30 June 2019, and their financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (DoRA).

#### Basis for qualified opinion

##### Expenditure

3. During 2018, the municipality did not have adequate systems to maintain records for expenditure. This resulted in general expenses being understated by R5 889 367, contracted services being overstated by R16 114 964 and payables from exchange transaction being understated by R5 433 809 in the consolidated and separate financial statements. Additionally, there was a resultant impact on the deficit for the period and the accumulated surplus. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. As these misstatements were not corrected, my opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures.
4. During 2018, I was unable to obtain sufficient appropriate audit evidence that services were received for payments made for contracted services and for general expenses as the information and explanations I considered necessary could not be provided by management. I was unable to determine whether any adjustments relating to contracted services of R43 946 354 and R43 519 475 as disclosed in note 27 and general expenses of R31 129 819 and R29 411 603 as disclosed in note 28 to the consolidated and separate financial statements were necessary. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. I was still unable to confirm these expenses by



alternate means. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### Property, plant and equipment

5. The different categories of property, plant and equipment as disclosed in note 3 to the consolidated and separate financial statements did not agree with the totals included in the asset register. This resulted in the community assets being understated by R4 779 223, buildings being overstated by R3 601 598 and the other property, plant and equipment being overstated by R1 468 913.

### Prior period errors

6. The municipality did not disclose all corrections made as a result of prior period errors in the notes to the consolidated and separate financial statements as required by GRAP 3, *Accounting policies, changes in accounting estimates and errors*. The nature and the amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest previous period were not appropriately disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for some of the prior period errors disclosed. I was unable to confirm the prior period errors by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the prior period errors disclosure in note 35 to the consolidated and separate financial statements.

### Statement of comparison of budget and actual amounts

7. GRAP 24, *Presentation of budget information in the financial statements* requires the presentation of the budget information including a statement comparing the budget and actual amounts as well as reasons for variances. The budget amounts included in the consolidated and separate statement of comparison of budget and actual amounts did not agree to the final approved budget of council. In addition, no explanations were included for variances between the budgeted and actual amounts. I was unable to quantify the resultant impact on the variances or the omitted explanations as it was impracticable to do so.

### Irregular expenditure

8. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure due to a lack of a complete register that agreed to the amounts disclosed in the consolidated and separate financial statements. I was unable to confirm the irregular expenditure by alternative means. In addition, the municipality made payments of R13 133 367 in the previous year in contravention with the supply chain management requirements which were not included in the irregular expenditure disclosed. Consequently, I was unable to determine whether any further adjustment relating to irregular expenditure of R147 382 928 (2018: R125 633 768) and R141 933 001 (2018: R129 787 357) as disclosed in note 43 to the consolidated and separate financial statements was necessary.

### Context for the opinion

9. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.
10. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants*, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) and the ethical requirements that are relevant to my



audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.

11. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Emphasis of matters**

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### **Unauthorised and fruitless and wasteful expenditure**

13. As disclosed in note 41 to the consolidated and separate financial statements, unauthorised expenditure of R67 966 774 in respect of prior years have not yet been dealt with in accordance with section 32 of the MFMA.
14. As disclosed in note 42 to the consolidated and separate financial statements, fruitless and wasteful expenditure of R82 835 was incurred in the current year and fruitless and wasteful expenditure of R10 906 590 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.

### **Other matter**

15. I draw attention to the matter below. My opinion is not modified in respect of this matter.

#### **Unaudited disclosure notes**

16. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and accordingly I do not express an opinion thereon.

### **Responsibilities of the accounting officer for the separate financial statements**

17. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and the DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
18. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

19. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.



20. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

21. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for the selected key performance area presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
22. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
23. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2019:

Key performance area	Pages in the annual performance report
KPA 1 – Basic service delivery and infrastructure development	x – x

24. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
25. The material finding in respect of the usefulness and reliability of the selected key performance area is as follows:

### KPA 1 – Basic service delivery and infrastructure development

#### KPI 5: Total kilometres of paved roads assessed by June 2019

26. I was unable to obtain sufficient appropriate audit evidence for the reported achievement in the annual performance report. This was due to a lack of systems and processes that enable reliable reporting of actual service delivery against the indicator. I was unable to confirm that the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustment was required to the reported achievement of "Achieved: 1215.63km of Paved Roads Assessed within Dr Kenneth Kaunda District Municipality by June 2019".

### Other matter

27. I draw attention to the matters below.



## Achievement of planned targets

28. Refer to the annual performance report on page xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the qualified opinion expressed on the usefulness and reliability of the reported performance information in paragraph 26 of this report.

## Report on audit of compliance with legislation

### Introduction and scope

29. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
30. The material findings on compliance with specific matters in key legislation are as follows:

### Annual financial statements

31. The separate financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of disclosure items identified by the auditors in the submitted separate financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the separate financial statements receiving a qualified audit opinion.

### Strategic planning and performance management

32. The service delivery and budget implementation plan (SDBIP) for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote as required by section 1 of the MFMA.
33. Annual performance objectives and indicators were not established for the Dr Kenneth Kaunda District Municipality Economic Agency SOC Limited and included in its multi-year business plan as required by section 93B(a) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).

### Human resource management

34. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted as required by section 67(1)(d) of the MSA.

### Expenditure management

35. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
36. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualified opinion paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations.

### Consequence management

37. Unauthorised, irregular, fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.



## **Procurement and contract management**

38. Bid documentation for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by regulation 8(2) of the 2017 Preferential Procurement Regulations.
39. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
40. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
41. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
42. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).

## **Other information**

43. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected key performance area presented in the annual performance report that have been specifically reported in the auditor's report.
44. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
45. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
46. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

## **Internal control deficiencies**

47. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
  - Leadership's oversight over the financial and performance reporting and compliance with legislation did not deliver financial and performance reports which were free from material misstatements. Senior management did not implement adequate control disciplines over the key drivers of internal controls and compliance monitoring which resulted in material misstatements not being detected and prevented.
  - Although the municipality conducted a risk assessment, the risk management activities still require attention as there are no plans in place for fraud prevention. This includes establishing a fully functioning risk committee that is in place for the full year under review to ensure regular risk assessments are performed, including information technology and fraud prevention, are conducted and that a risk strategy is developed and monitored in order to address these risks.



# Auditor - General

Rustenburg

18 December 2019



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# **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected key performance areas and on the municipality’s compliance with respect to the selected subject matters.

## **Financial statements**

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in the auditor’s report, I also:
  - identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the consolidated and separate financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Dr Kenneth Kaunda District Municipality and its subsidiary’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.

